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ANNUAL REPORT
2000-2001

FINANCIAL INSTITUTIONS COMMISSION

BRITISH COLUMBIA

&

Credit Union Deposit Insurance Corporation
of
British Columbia

Financial Institutions Commission of British Columbia
("FICOM")

Including:
The Credit Union Deposit Insurance Corporation of B.C.
The Superintendent of Financial Institutions
The Superintendent of Real Estate
The Registrar of Mortgage Brokers

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The Financial Institutions Commission administers 10 statutes:

- **Community Financial Services Act** - provides a framework for the regulation and operation of the B.C. Community Financial Services Corporation ("Four Corners Community Savings").
- **Credit Union Incorporation Act** - provides a corporate governance framework for credit unions consistent with their cooperative characteristics.
- **Financial Institutions Act** - provides a regulatory framework to govern all provincially regulated financial institutions including trust companies, insurance companies and credit unions. It also provides the licensing and regulatory framework for insurance agents, salespersons and adjusters under the supervision of the Insurance Council of British Columbia. Finally, the Act provides for a credit union deposit insurance fund.
- **Insurance Act** - provides certain statutory requirements for contracts of insurance.
- **Insurance (Captive Company) Act** - establishes British Columbia as a domicile for captive insurance companies and provides a registration and regulatory framework for captive insurance companies.
- **Insurance (Marine) Act** - provides certain statutory requirements for contracts of marine insurance.
- **International Financial Business Act** - establishes a licensing and regulatory framework for financial institutions to register in British Columbia to carry on international financial business.
- **Mortgage Brokers Act** - provides a registration and regulatory framework for mortgage brokers who deal with the public.
- **Real Estate Act** - Part 1 of the *Real Estate Act* provides the licensing and regulatory framework for real estate agents, salespersons and property managers under the supervision of the Real Estate Council of British Columbia.

  Part 2 of the Act provides a regulatory framework for the sale of subdivisions, including strata developments, cooperatives, shared interests and time shares.
- **Strata Property Act** - provides a framework for the development, governance and management of strata corporations.

Copies of the statutes are available at a modest cost from:
Crown Publications
521 Fort Street
Victoria, British Columbia V8W 1E7
Phone: [250] 386-4636 Fax: [250] 386-0221

Copies of the statutes are also available on the Internet at:
http://www.qp.gov.bc.ca/statreg/

FINANCIAL INSTITUTIONS COMMISSION

CREDIT UNION DEPOSIT INSURANCE CORPORATION (CUDIC)

Commissioners/Directors

J. Stewart Cunningham • a professional actuary, retired CEO of Seaboard Life	Chair of Commission and CUDIC FICOM Commissioner CUDIC Director
Sharron Simpson • former trustee of the Municipal Finance Authority	Vice-Chair of Commission and CUDIC FICOM Commissioner CUDIC Director
Ron Giammarino • Professor of Finance, UBC	FICOM Commissioner CUDIC Director
Chris Trumpy • Deputy Minister (represented by designate Leon de Wet, Director, Financial and Corporate Sector Policy Branch)	FICOM Commissioner CUDIC Director
Edith Skiber • Retired credit union director	FICOM Commissioner CUDIC Director
Alice Laberge • Corporate finance executive	FICOM Commissioner CUDIC Director
Wallace Mah • Town administrator	FICOM Commissioner
Ram Hira • Commercial Barrister and Solicitor	FICOM Commissioner
Geoffrey Young • Independent management consultant	FICOM Commissioner

Executive Management

W. Alan Clark	Chief Executive Officer Superintendent of Financial Institutions Superintendent of Real Estate Registrar of Mortgage Brokers
Kenneth Fraser	Acting Executive Director, Investigations
Ross W. Gentleman	Executive Director Administrative Policy Finance and Administration
C. Michael Grist	Deputy Superintendent of Insurance
Azmina Manji	Deputy Superintendent of Credit Unions And Trust Companies
Adrienne M. Murray	Deputy Superintendent of Real Estate Deputy Registrar of Mortgage Brokers
Garry E. Wadham	Executive Director, Examinations

Financial Institutions Commission

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2000-2001

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NOTE: Photos of FICOM staff are included on some pages as a small way to acknowledge our staff's hard work, commitment to serving the public, and contribution to a positive workplace.

***Commissioners**: Wallace Mah, Leon de Wet, Edith Skiber, J. Stewart Cunningham (Chair), Sharron Simpson (Vice-Chair), Ron Giammarino, Ram Hira. Missing from photo: Alice Laberge and Geoffrey Young.*

I. Report of the Commission Chair

It has been my pleasure to serve for another year as Chair of the Commission. And I am proud of the work done by Commissioners and FICOM staff in discharging responsibilities under various statutes.

This past year has once again brought more challenges as we continue to see rapid change in the financial services industry. These changes include consolidation and integration of companies, innovation in marketing and evolving jurisdictional conflicts.

One of the most significant changes this year was the departure of Robert Hobart as Superintendent and CEO, after eleven years. He is now providing consultancy services to regulators in the Caribbean. We thank him for his dedication and leadership at the Commission and wish him every success in his future endeavours.

The trend of consolidation in credit union operations continued though the year with 5 credit union mergers (down from 10 the previous year). While the Commissioners review proposals for prudential issues, credit union member-shareholders make the ultimate decisions on these restructuring proposals. In all cases we have been satisfied that the new entities are viable. However, one of our concerns is to ensure that these, frequently complex, business agreements are plainly and fairly represented to member-shareholders.

Rationalization is also apparent in other financial institutions. The number of BC trust companies and BC Insurance companies declined by three, but extra-provincial companies have replaced these. This shift reflects the changing profile of the industry and the changing demands of the regulatory authorities who largely serve the interests of BC consumers.

Business authorization applications from companies outside the province more frequently propose sales through new channels, and existing companies are also using these new channels. These and other innovations prompt concerns regarding sales practices, staff qualifications, and consumer remedies that do not easily mesh with traditional regulatory schemes. We attempt to

address issues constructively and we are working with other provincial regulators to harmonize our approaches. We seek to ensure BC consumers are well and fairly served.

The Commissioners are delegated several specific responsibilities under the *Financial Institutions Act*. These are related to the incorporation of financial institutions, the issuance and revocation of business authorizations, actions to stabilize the operations of credit unions in distress, and maintenance of the deposit insurance fund. The Commissioners met seven times to consider several matters, many of which are detailed in this report. We are pleased with the overall stability of the financial services sector in the province and the vitality of the market.

I take this opportunity to thank my fellow Commissioners and all staff for their work through the year. I also welcome Mr. Alan Clark to the position of Superintendent and CEO.

J. Stewart Cunningham

The credit union system in BC is the second largest in Canada, after the caisse populaires in Quebec. BC Credit unions claim approximately 20% share of the province's retail banking and lending markets. At March 31, 2001 there were 71 retail credit unions (& two central credit unions) with assets exceeding $24 billion, authorized to conduct business in the province.

BC is the third largest insurance market in Canada. At March 31, 2001 there were 263 companies (8 incorporated in BC) authorized to do business by the Commission, with annual premiums in excess of $4 billion.

II. Report of the Superintendent and CEO

From a regulatory perspective, this fiscal year was a better year for financial institutions and mortgage brokers, and a difficult year for real estate brokers. The past fiscal year, the start of our second decade at the Financial Institutions Commission, ended with Mr. Robert Hobart leaving the organization to pursue a new opportunity. Mr. Hobart was Superintendent and CEO for almost eleven years. All of us wish him well and thank him for his efforts.

The year brought further consolidation and innovation in the financial services sector, and mixed performance in the real estate sector. And on the legislative front, a new Strata Property Act replaced the Condominium Act. The number of credit unions declined to 71 at March 31, 2001 (2000: 76) while total credit union assets increased 5.3% to $24 billion. As well, the provincial credit union system posted strong earnings in aggregate for the calendar year 2000, at 37 basis points of average total assets (1999: 30 basis points). The credit union system is proceeding to consider further structural changes and business innovations. This office continues to work constructively with credit unions to ensure prudent management, plain and true consumer disclosure, and a strong deposit insurance program.

The number of BC based insurers dropped to 8, and consequently the majority of our regulatory attention is directed to the 255 extra-provincial companies. Through the Canadian Council of Insurance Regulators, FICOM has introduced a variety of "harmonized" practices to enhance the efficiency of regulation. Representing the nation's third largest province, FICOM has also provided leadership on several fronts nationally, both related to solvency requirements and market conduct. At year-end we have one high profile case scheduled to be heard by the Supreme Court of Canada, related to federal-provincial jurisdiction.

Housing starts declined again in 2000, as did the number of home sales in the province. The overall picture for the real estate sector was mixed, however some positive signs have arisen in recent months. The Strata Property Act was brought into force July 1, 2000 and this office mounted a major public education effort in partnership with the Real Estate Foundation to ensure strata property owners were aware of the new legislation and its provisions.

We are proud of our achievements, as we continue to see that consumers are well served by the financial services and real estate industries in British Columbia. We recognize that these services are essential to virtually every British Columbian, and we are confident that our pragmatic, focussed, and efficient regulatory stance contributes to a vital and competitive market place. We also acknowledge and thank the industry organizations with specific delegated responsibilities under various acts, for their assistance and co-operation during the year: the Insurance Council of BC, the Real Estate Council of BC, and Stabilization Central Credit Union of BC.

In closing I would like to thank the staff and management at FICOM and the Commissioners for their efforts and dedication throughout the year.

W. Alan Clark

III. Mandate

The Financial Institutions Commission (FICOM) administers 10 statutes which provide regulatory rules for the protection of the public. These regulatory rules are designed to:

- protect depositors and policyholders against insolvency of a trust company, credit union, or insurance company;
- safeguard consumers against improper market conduct in the financial services and real estate industries; and
- through the Credit Union Deposit Insurance Corporation (CUDIC), insure credit union deposits and non-equity shares up to a maximum of $100,000 per "separate deposit" (as defined by regulation), per credit union.

IV. Governance and Authority

FICOM consists of up to 11 commissioners and a staff complement of 75. FICOM commissioners are appointed by the Lieutenant Governor In Council on the recommendation of the Minister of Finance.

Commissioners have two principal roles in the administration of the *Financial Institutions Act*, the *Credit Union Incorporation Act* and the *Community Financial Services Act* :

- provide recommendations to the Minister of Finance and Corporate Relations on major regulatory decisions related to incorporations, business authorizations, mergers, liquidations and wind-ups; and
- make credit union stabilization, supervision and deposit insurance decisions. Stabilization and supervision are regulatory powers used to assist credit unions that are experiencing financial or other difficulties.

Commissioners have no legislative responsibilities with respect to the other statutes administered by FICOM.

The Financial Institutions Commission was created in 1989 upon proclamation of the **Financial Institutions Act**. The British Columbia legislature was the first in Canada to introduce one comprehensive statute to regulate the financial services industry.

V. Organization

FICOM staff is organized into six departments all reporting to the Superintendent and Chief Executive Officer. The departments are:

- **Credit Unions and Trust Companies** - responsible for the day-to-day regulatory decisions under the Financial Institutions Act, Credit Union Incorporation Act and Community Financial Services Act;
- **Examinations** - responsible for both on-site and desk examinations of financial institutions;
- **Insurance** - responsible for the day-to-day regulatory decisions under the Financial Institutions Act, Insurance Act, Insurance (Captive Company) Act, Insurance (Marine) Act and International Financial Business Act and working with the Insurance Council of BC regarding the regulation of licensed insurance professionals;
- **Investigations** - responsible for investigating statutory breaches of all acts administered by FICOM as well undertaking investigations into criminal matters;
- **Real Estate and Mortgage Brokers** - responsible for certain day-to-day regulatory decisions under the *Real Estate Act*, the *Mortgage Brokers Act*, and the *Strata Property Act*. The Superintendent of Real Estate also works with the Real Estate Council of B.C. with respect to the regulation of real estate agents and salespersons; and
- **Administrative Policy, Finance and Administration** – responsible for support to the other departments, including research & development of administrative policy, accounting, human resources, information systems, and co-ordination of Freedom of Information Act requests.

AUTHORIZED COMPANIES

Names and addresses of all financial institutions authorized to conduct business in British Columbia are listed on FICOM'S web site at http://www.fic.gov.bc.ca.

VI. Solvency Regulation

Before a credit union, trust company or insurance company can operate in British Columbia, it is required to obtain a business authorization from the Financial Institutions Commission (FICOM). The *Financial Institutions Act* specifies a number of financial and other requirements that must be met before a business authorization can be granted. Thus, the starting point for solvency regulation is to ensure that only financial institutions that meet certain financial and other requirements are permitted to operate in British Columbia.

Once a financial institution is authorized to conduct business, solvency regulation involves continuous monitoring with the objective being to ensure prudent operation and compliance with regulatory rules and guidelines. With respect to financial institutions incorporated in British Columbia, regulatory monitoring consists of:

- a continuous review of each institution's financial statements to ensure compliance with liquidity, capital and other regulatory requirements;
- a review of each institution's investment and lending policy to ensure the policy is prudent, comprehensive and meets statutory requirements; and
- an annual examination of each institution to assess investment and lending policy compliance, statutory compliance, management and corporate governance practices, and asset quality.

If monitoring identifies non-compliance to requirements, FICOM has the authority and responsibility to ensure that the financial institution remedies the situation in a timely manner.

Financial institutions which are incorporated in jurisdictions other than British Columbia are not required to meet certain specific prudential requirements of the *Financial Institutions Act* provided that adequate regulatory safeguards exist in the incorporating jurisdiction.

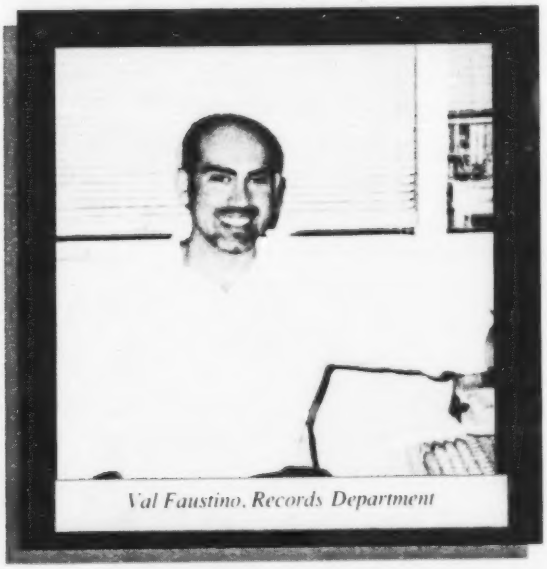
Consistent with this approach, FICOM limits its monitoring of extra-provincial companies to periodic reviews of financial filings and other information. Where non-compliance is evident, FICOM works with the regulatory authority in the incorporating jurisdiction, as appropriate, to ensure remedial action occurs.

In March 2001, the **Auditor General** issued a report on an assessment of FICOM programs for "Monitoring Credit Unions and Trust Companies in British Columbia." The Commission was pleased with the results of the assessment. The auditors found the programs to be adequate and made recommendations for relatively minor changes only. (http://bcauditor.com)

Despite regulatory rules and regulatory monitoring, however, financial institutions do on occasion become insolvent. Regulation reduces the risk of insolvency, but cannot provide a guarantee of total safety.

The *Financial Institutions Act* provides an additional consumer safeguard by requiring all deposit taking trust companies, insurance companies and credit unions authorized to conduct business in British Columbia to be a member of a deposit insurance plan or insurance compensation plan. These plans reimburse consumers for losses that may result from the insolvency of a financial institution. Because each plan has different rules and limits regarding compensation for losses, consumers are advised to obtain further information directly from the appropriate plan.

Consumers, if uncertain about the financial stability of a financial institution, are encouraged to examine its audited financial statements. The *Financial Institutions Act* requires each credit union, trust company and insurance company conducting business in British Columbia to allow a member of the public to examine its financial statements and auditor's report at the company's business office. In addition, for a reasonable fee, the *Financial Institutions Act* requires a financial institution to provide a copy of its audited financial statements to a member of the public on request.



Val Faustino, Records Department

Khalsa Credit Union requested the supervision of the Commission in June 1999, and the Commission, pursuant to the *Financial Institutions Act*, appointed Stabilization Central Credit Union as the supervisory authority. The statute provides that control of a credit union under supervision is to be shared by the credit union board and the stabilization authority. In March of 2000, the Commission appointed an administrator to oversee the affairs of the credit union, but the directors filed an appeal of this decision that was successful. The Commercial Appeals Commission determined that the terms of supervision could be structured appropriately to ensure corrective action was taken, and that, consequently, the appointment of an administrator was not justified in the circumstances. The credit union continued under supervision subject to revised terms.

VII. Market Conduct Regulation

The legislation which FICOM administers provides a number of regulatory rules which govern conduct in the market place. These regulatory rules are generally in place to ensure that consumers are served by ethical and competent persons. As well, the rules ensure that consumers are provided with sufficient information to make rational decisions.

John Ruffolo / V.I. Renter's Centre Ltd.

On March 12, 2001, the B.C. Supreme Court dismissed Mr. Ruffolo's appeal of a conviction under the *Real Estate Act*, for acting as an agent without a license. Among other matters, the court declined to reduce the total fines of $19,000.

FICOM's general approach to market conduct regulation is to respond to complaints from the public. All complaints are analysed, investigated and, if necessary, acted upon. In most instances, an investigation involves contact with the subject of the complaint to advise of the requirements of the applicable legislation. This often results in voluntary compliance and no need for further action. Other responses to complaints include warnings, orders to cease, disciplinary orders or prosecution for offences under the acts administered by FICOM or under the Criminal Code of Canada. Bulletins to the industry are also issued if information suggests that there is widespread misunderstanding of a specific statutory requirement.

Market conduct regulation, however, does not extend to contractual disputes. FICOM is only empowered to respond to violations of statutes. Because contractual disputes are matters of personal disagreement, it is inappropriate for FICOM, as an agency of government, to take a position on either side. Contractual disputes must be resolved by the persons involved with the assistance of the courts, if necessary.

In addition, even in instances where there have been breaches of a statute, FICOM does not have the authority to order restitution for those who may be impacted by the breach. FICOM's authority is limited to ensuring that statutory violations cease and, if appropriate, imposing regulatory sanctions.

Market conduct rules vary to some extent among the statutes administered by FICOM.

Under the *Financial Institutions Act*, regulatory rules are in place to ensure full disclosure to consumers as well as to prohibit unfair contracts, tied selling and the inappropriate use of confidential information. These provisions are applicable to all credit unions, trust companies and insurance companies operating in British Columbia. In addition, the *Financial Institutions Act* provides requirements regarding the licensing, competence, and conduct of insurance agents, salespersons and adjusters under the direction of the Insurance Council of British Columbia.

The Supreme Court of Canada is scheduled to hear a case arising from a decision of the Superintendent of Financial Institutions in BC regarding unlicensed insurance sales. In this action, the **Bank of Nova Scotia** and a marketing firm contracted by the bank contend that they are exempt from provincial insurance laws. The question is a constitutional one and several other parties have sought intervener status.

With respect to insurance companies, the requirements of the *Financial Institutions Act* are augmented by the provisions of the *Insurance Act* and *Insurance (Marine) Act*. These statutes set out specific requirements for contracts of insurance as well as the rights and obligations of both insureds and insurers.

The *Mortgage Brokers Act* requires the registration of persons who engage in the business of lending money on mortgage security, buying and selling mortgage interests or arranging mortgages for members of the public. To obtain registration, the *Act* requires that the applicant have a suitable background as well as certain educational qualifications. Once registered, the *Act* provides conduct requirements for public protection including regulatory rules for the handling of trust accounts and rules regarding full disclosure of interest rates and fees to the consumer.

Amendments to the *Mortgage Broker Act* were brought into force in September of 2000, primarily to enhance investor disclosure.

Part I of the *Real Estate Act* provides a licensing and regulatory regime for those engaged in the business of buying and selling properties on behalf of others. The emphasis is again on public protection by allowing only qualified and suitable persons to become licensed and by providing rules of conduct for licensees. Although the day-to-day administration of Part I of the *Real Estate Act* has been delegated to the Real Estate Council of British Columbia, the Superintendent of Real Estate maintains responsibility for the overall administration of the *Act*.

The Superintendent also takes direct regulatory action with respect to unlicensed activity, in cases where licensees fail to maintain a surety bond or where licensees fail to have a nominee in active charge of the agency, and in instances of trust account misappropriation or criminal activity.

Complaints from the public and industry participants are one important source of information regarding misconduct or illegal activity. In this fiscal year, FICOM investigators opened 208 complaint files. Where complaints are substantiated, the result may be disciplinary action under a regulatory statute, prosecution for provincial act offenses, or criminal charges. In fiscal 2001, investigations resulted in 35 criminal charges.

Part II of the *Real Estate Act* contains provisions related to the marketing to British Columbia residents of subdivision lots, strata lots, co-operative units, shared interests and time-shares located in British Columbia and other jurisdictions. These provisions are intended to protect the public by:

- requiring each developer to issue a prospectus or disclosure statement in order that purchasers are provided all relevant information about the development before making a purchase decision;
- requiring developers to hold each purchaser's deposit in trust until the completion of the transaction; and
- providing a rescission period after the contract has been executed.

Disclosure statements and prospectuses must also be filed with the Superintendent of Real Estate and are reviewed to ensure compliance with the requirements of the *Real Estate Act*. If it is determined at the time of submission or after its acceptance that a disclosure statement or

On April 4, 2000, the Superintendent of Real Estate suspended the license of **Pat Derrick Property Management Ltd.** and ordered all assets to be frozen. An investigation revealed shortfalls in trust accounts maintained for over 30 strata corporations. A receiver was appointed and a criminal investigation is proceeding.

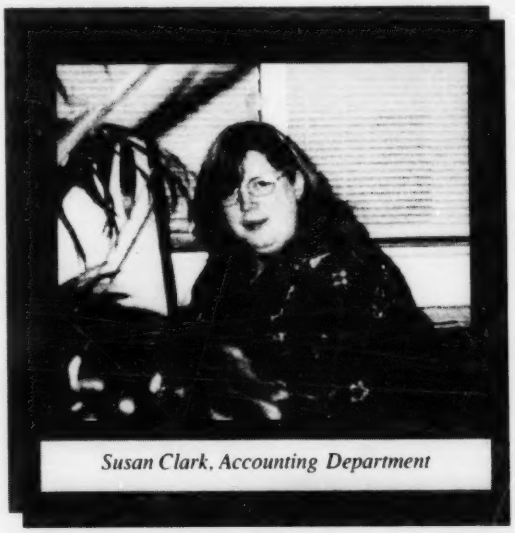
prospectus does not contain all relevant and required information, the developer must cease marketing the development until the document is amended.

If a purchaser believes that a developer did not fulfil the promises as set out in the disclosure statement, or the amended disclosure statement, the purchaser may negotiate with the developer or seek resolution through the courts. Part II of the *Real Estate Act* does not provide the Superintendent with the authority to become involved in the dispute, nor to order compensation be paid to the purchaser.

Nevertheless, Part II of the Act does enhance a purchaser's position in two ways. First, much of the information that a purchaser would normally obtain only verbally is required to be included in a disclosure statement. As a result, the developer's promises are clear and in writing. Second, the *Real Estate Act* deems a purchaser to have relied on the information in the disclosure statement. Thus, unlike other legal actions related to a contract, purchasers are not required to establish that they relied on the developer's promises when the property was purchased.

The only responsibilities of the Superintendent of Real Estate under the *Strata Property Act* relate to approvals of voting and unit entitlements that do not follow a formula prescribed in the *Strata Property Act*. The *Strata Property Act* also provides a framework to condominium owners for the operation of their condominium development. This framework is structured on the principle of democracy and provides condominium owners with control of their strata corporation through direction that can be provided to the strata council.

The Superintendent's office assists condominium owners by providing information on the provisions of the Act. Twenty-seven instruction guides have been prepared and are available on FICOM's web site. However, in the case of contractual disputes, it is not appropriate for the Superintendent's office to intercede in a condominium development's operations or resolve disputes that may occur. The parties involved should resolve these disputes between themselves, or with the assistance of a mediator/arbitrator, or the courts, if necessary.



Susan Clark, Accounting Department

VIII. Efficiency, Transparency and Accountability

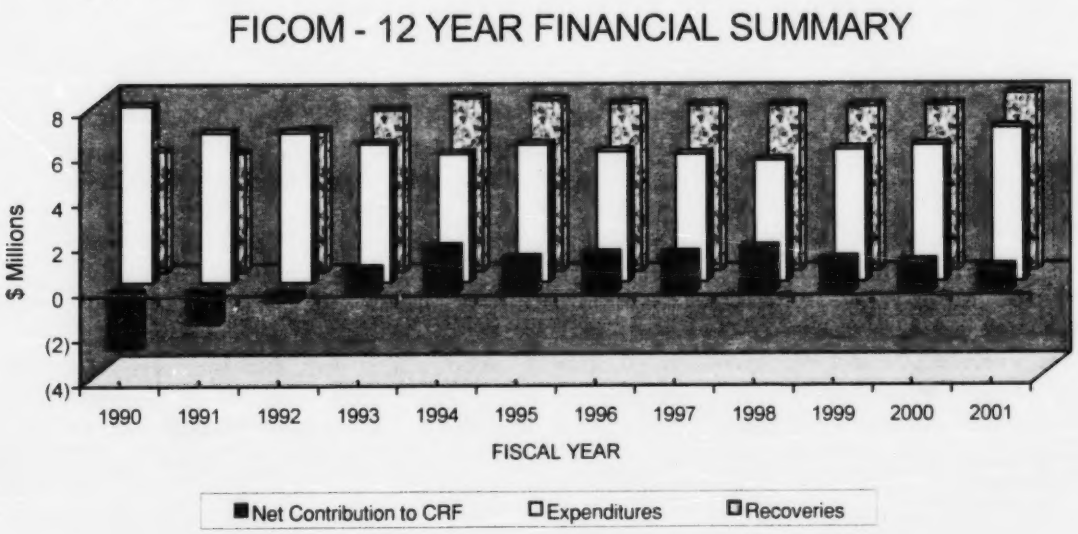
A. Cost of Regulation

FICOM expenditures are fully recovered from fees and assessments, and the total expenditures have remained quite stable throughout the past decade.

Funding for FICOM is provided in the provincial government main Estimates ("the Budget") for the Ministry of Finance. A nominal net expense of $1000 is authorized. This funding mechanism requires all FICOM's expenditures to be recovered from fees and license revenues received from industry. In 2000/2001, FICOM's gross actual expenditure was $6.8 million, $450,000 under budget. Approximately 70% of the expenditure was for staff and professional services.

Actual revenues ("recoveries") were $7.9 million in 2000/2001. These recoveries were comprised of transfers from CUDIC for expenditures incurred by FICOM for credit union deposit insurance, supervision and stabilization matters ($1.6 million), and annual licensing and assessment fees ($6.2 million).

FICOM, thus, generated an excess of recoveries over expenditure of $1.1 million during 2000/2001. These funds were transferred to the Consolidated Revenue Fund ("CRF") and offset government overheads that are not fully accounted for in FICOM's expenditure budget.



Net earnings for CUDIC during 2000/2001 were $6.7.million, after the payment of income taxes of $667,922. Revenue totalled $9.7 million including revenue of $4 million from a 2 basis point assessment on credit unions. Expenses, including a $500,000 increase in provisions for losses, were $2.3 million. A return of 6.1% was achieved on CUDIC's investment portfolio. (CUDIC's financial statements are on Page 19.)

B. Planning and Reporting to the Public

FICOM is committed to providing effective, efficient and equitable regulation of the financial services and real estate sectors in British Columbia. Last year FICOM enumerated two principal goals in pursuing its responsibilities:

1. that BC consumers generally have confidence in the financial institutions authorized to operate in BC and the licensed/registered professionals that provide financial and real estate services, and.

2. that those regulated generally consider that they have been treated fairly.

In a regulatory role, it is difficult to assess results in clear and simple measures. FICOM attempts to evaluate performance through several indicators and intends to introduce surveys in the coming year to further inform our management decisions and program plans.

In assessing our performance relative to goals in the past year, management has used a variety of measures (see table on page 14). The Commission is satisfied that the desired results are being achieved.

Don Delli Pizzi, Records Department

Goal: / Responsibility:	1. Consumers generally have confidence in the financial institutions authorized to operate in BC.	2. The regulated generally consider that they have been treated fairly.
Monitoring authorized financial institutions to ensure prudent operation and reasonable market conduct.	• The number of consumer complaints were somewhat lower than previous years. • Market share for provincially authorized institutions remained stable. • Consumer advocates raised no major issues. • Credit union market surveys confirmed positive consumer image of provincial credit unions.	• Industry organizations collaborate voluntarily on programs. • Two credit unions are under supervision at year-end (at the credit unions' request). • One decision of the Commission was successfully appealed by one credit union. • Six new insurance company business authorizations were issued during the year, the number was similar to previous years. • All BC financial institutions were examined during the year. • Auditor General's report on programs was very favourable.
Regulating compliance by insurance licensees, real estate developers, real estate licensees, and mortgage brokers.	• Complaints received regarding insurance licensees, real estate professionals, and developers were at levels similar to previous years. • Complaints regarding mortgage broker conduct declined year over year.	• FICOM was satisfied that self-regulatory organizations' disciplinary actions were generally appropriate. • Mortgage broker investigations and regulatory orders declined year over year. • Industry associations have supported various regulatory actions.
Taking appropriate action against unlicensed activity.	• The number of complaints increased.	• Several investigations concluded satisfactorily, with unlicensed activity ceasing upon receipt of a warning. • FICOM recommended prosecution to Crown Counsel on a number of occasions. • One case was appealed and the appeal dismissed.

C. Public Communications

FICOM publishes information regarding its operations through an annual report and performance plan. Several matters are also covered in ministry publications and estimates. FICOM also provides information to the public regarding the financial services sector in order to facilitate the free flow of information in the marketplace, and to warn the public of unauthorized or inappropriate activity.

Prior to and following the introduction of the new ***Strata Property Act***, July 1, 2000, the Superintendent of Real Estate undertook a major public information program. This program included workshops around the province, the publication of 27 Instruction Guides, and the development of a comprehensive web-site (http://www.fic.gov.bc.ca/strata/index.html). We sincerely appreciated the support and co-operation of the Real Estate Foundation of B.C. on this project.

Ongoing programs include:

- **Press releases**. The Commission routinely issues press releases to advise the public of significant changes in the status of financial institutions and registrants/licensees. These may be issued due to the revocation of a company's business authorization or a suspension of a license. On occasion, releases may also advise the public of unlicensed activity and potential frauds. Press releases are also produced through the Canadian Council of Insurance Regulators and the Joint Forum of Financial Market Regulators regarding inter-jurisdictional concerns.

- **Web-site.** The Commission continues to develop a comprehensive web-site to provide the public direct access to information on those authorized to conduct business in BC, the regulatory framework, and consumer information. Links to related sites are also offered.

- **Public inquiries.** The Commission responds to several thousand inquiries from the public each year, by phone, fax, letter and e-mail. FICOM attempts to provide clarification of the regulatory requirements and answer related questions.

D. Harmonization

During this past fiscal year FICOM has continued to pursue opportunities for harmonizing regulatory requirements for insurance companies doing business in several provinces. While the regulation of insurance business is a matter of provincial jurisdiction, most insurance companies do business in more than one province and have expressed concern at the variations in requirements among the provinces and the redundancy in required filings.

Several matters have already been addressed through the governing statute by the legislature. In addition, FICOM participates in the Canadian Council of Insurance Regulators (CCIR) and the Joint Forum of Financial Market Regulators and, in part, through these forums, the following has been achieved:

- CCIR assumed direct responsibility for a repository of insurance company undertakings related to insurance coverage on vehicles from outside the country. Previously, FICOM had maintained the resource.
- A new standardized regime for licensing insurance professionals has been drafted, in consultation with self-regulatory and industry associations.
- Research has been initiated to survey consumers of financial services on the need for a better harmonized (or coordinated) dispute resolution mechanism.
- Procedures were introduced to reduce duplication in regulatory filings. Information returns filed by federally regulated companies may be submitted to federal authorities only, who then share the information with provincial regulators.
- Amendments to disclosure requirements for segregated funds, applicable in all provinces, were brought into force.

Mandeep Dulai, Systems Department

IX. Operational Highlights 2000-2001

- Conducted ongoing financial monitoring of 71 (2000: 76) authorized credit unions, 5 (2000: 7) trust companies incorporated in British Columbia, 8 (2000: 9) insurance entities incorporated in British Columbia and the B.C. Community Financial Services Corporation.
- Conducted financial monitoring of 46 (2000: 46) extra-provincial trust company and 258 (2000: 260) extra-provincial insurance companies.
- Approved business authorization applications for one (2000: 6) trust companies, and 6 (2000: 7) insurance companies. Also approved registration for one new reciprocal exchange (2000: 0).
- Approved the revocation of seven extra-provincial insurance company business authorizations.
- Consented to 6 (2000: 10) credit union merger applications.
- Approved registration renewals for 14 (2000: 15) captive insurance companies and four (2000: 4) reciprocal exchanges.
- Supervised two credit unions at March 31, 2001: Khalsa Credit Union and KCP Credit Union (2000: 1).
- Conducted 86 (2000: 91) examinations pursuant to the Financial Institutions Act and reported findings to the Superintendent and the board directors of each financial institution examined.
- Reviewed 135 (2000: 169) investment and lending policy changes for prudence, comprehensiveness and statutory compliance.
- Processed 377 (2000: 323) credit union regulatory approvals and filings including (a) capital adequacy returns, (b) personal information returns, (c) amendments to rules, common bonds and constitutions, and (d) extensions to the period for the holding of annual general meetings.
- Reviewed 368 (2000: 763) strata filings. Reviewed plans and approved voting, unit entitlement and interest upon destruction calculations for compliance with the Condominium Act. Subsequent to July 1, 2000, only approved non-standard schedules of voting and unit entitlement under the Strata Property Act.
- Reviewed 677 (2000: 966) disclosure statements and amendments, and 46 (2000: 46) prospectuses and amendments for compliance with the Real Estate Act.
- Registered 309 (2000: 292) mortgage brokers and sub-mortgage brokers and processed 396 (2000: 512) registration renewals.
- Published 27 Instruction Guides on the Strata Property Act, organized 18 workshops and attended a variety of other events to ensure the new legislation was well understood by the public.
- Concluded 255 investigations pertaining to statutory violations and criminal matters.
- Issued 32 (2000: 24) Superintendent Orders and executed 40 (2000: 28) search warrants.
- Charged 8 (2000: 21) persons and/or companies with 2 (2000: 6) provincial statute offences and 35 (2000: 117) Criminal Code offences.
- Responded to 12,000 inquiries, consumer complaints and requests for statutory rulings.
- Senior staff made numerous presentations to boards, industry associations and public interest groups with respect to statutory requirements, prudent practice and good governance.

X. Credit Union Deposit Insurance Corporation

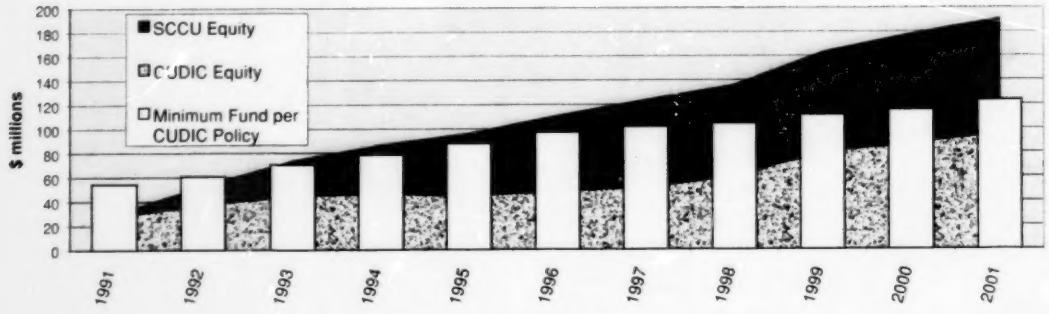
The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is operated as a separate entity by the Financial Institutions Commission, according to the provisions of the Financial Institutions Act. The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the Act. Details regarding deposit insurance coverage can be obtained by contacting FICOM or through FICOM's web site at http://www.fic.gov.bc.ca.

To meet its deposit protection responsibility, CUDIC undertakes administrative and regulatory functions as set out in the *Financial Institutions Act*, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures.

Corporate governance of CUDIC is provided by directors who are appointed by the Lieutenant Governor in Council and who are also FICOM Commissioners. CUDIC has no operating staff and administrative services relating to CUDIC's mandate are performed by FICOM staff. Expenses related to these services are charged back to CUDIC.

In order to ensure that CUDIC has the financial resources necessary to meet its obligations to credit union depositors, a depositor protection fund has been established. Based on historical payouts and ongoing analysis, it has been concluded that a minimum fund of 57.5 basis points of total credit union deposits is sufficient to meet CUDIC's obligation. As at March 31, 2001, accumulated earnings (including provisions) of CUDIC were $94.6 million. As well, the Stabilization Central Credit Union of British Columbia (SCCU), an industry self help organization, has provided an irrevocable letter of credit in favour of CUDIC issued by Credit Union Central of British Columbia totaling $30 million. These two items, taken together, provide CUDIC a total $124.6 million or 58 basis points of credit union deposits at March 31, 2001, to meet its deposit insurance mandate. The total of funds available at CUDIC and SCCU to assist credit unions in the event of financial distress was $186.3 million (or 87 basis points).

Deposit Insurance Fund (millions)



CUDIC, together with SCCU and Credit Union Central of BC, has commenced a review to determine the optimal size of the deposit insurance fund. The review will consider approaches taken in other jurisdictions and relevant research into financial models. The subject was last reviewed in 1996.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Grant Thornton LLP
Chartered Accountants
Management Consultants
Canadian Member Firm of
Grant Thornton International

Grant Thornton

Auditors' Report

To the Board of Directors of
Credit Union Deposit Insurance Corporation of British Columbia

We have audited the balance sheet of Credit Union Deposit Insurance Corporation of British Columbia as at March 31, 2001 and the statements of earnings and accumulated earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on basis consistent with that of the preceding year.

Grant Thornton LLP

New Westminster, Canada
May 16, 2001

Chartered Accountants

Sixth Floor
628 Sixth Avenue
New Westminster
British Columbia
V3M 8Z1
Phone (604) 521-3761
Fax (604) 521-8170

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

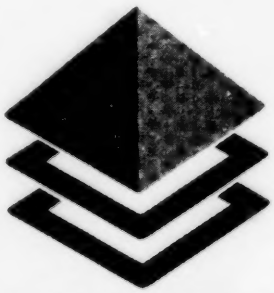
BALANCE SHEET

ASSETS	March 31 2001	March 31 2000
Cash	$ 641,601	$ 163,953
Investments		
Amortized cost (note 3)	93,044,796	86,368,874
Accrued interest	1,370,204	1,167,653
	$ 95,056,601	$ 87,700,480
LIABILITIES AND ACCUMULATED EARNINGS		
Accounts payable and accruals	$ 464,743	$ 313,593
Provision for losses (note 2)	6,500,000	6,000,000
Accumulated earnings	88,091,858	81,386,887
	$ 95,056,601	$ 87,700,480

Contingency (note 5)
See accompanying notes to financial statements.

Approved by the Board (originals signed by):

J.S.M.Cunningham, Director
E. Skiber, Director

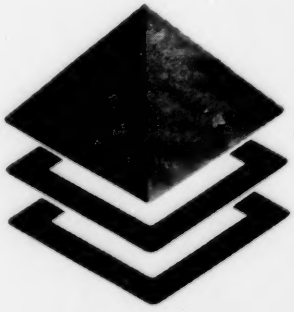


CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

STATEMENT OF EARNINGS AND ACCUMULATED EARNINGS

	Year Ended March 31 2001	Year Ended March 31 2000
REVENUE		
Investments	$ 5,631,183	$ 4,763,390
Assessments	4,052,743	4,884,692
	9,683,926	9,648,082
EXPENSES		
Administration (Schedule A)	1,647,364	1,505,796
Adjustment to provision for losses (note 2)	500,000	200,000
Investment management fees	163,669	136,633
	2,311,033	1,842,429
NET EARNINGS BEFORE INCOME TAXES	7,372,893	7,805,653
Income taxes (note 4)	667,922	574,183
NET EARNINGS	6,704,971	7,231,470
Accumulated earnings at beginning of year	81,386,887	74,155,417
ACCUMULATED EARNINGS AT END OF YEAR	$ 88,091,858	$ 81,386,887

See accompanying notes to financial statements.



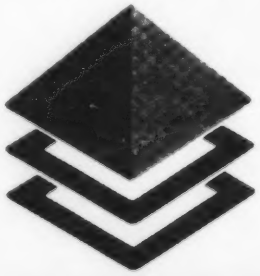
CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

STATEMENT OF CASH FLOWS

	Year Ended March 31 2001	Year Ended March 31 2000
CASH PROVIDED BY (USED FOR):		
OPERATIONS		
Net earnings	$ 6,704,971	$ 7,231,470
Item not involving cash		
Increase in provision for losses	500,000	200,000
Loss (gain) on sale of securities	167,901	622,187
Changes in non-cash balances related to operations		
Accounts payable and accruals	151,150	631
	7,524,022	8,054,288
INVESTING ACTIVITIES		
Securities purchased	(66,982,950)	(44,179,830)
Proceeds from sale of securities	59,936,576	36,097,418
	(7,046,374)	(8,082,412)
Increase (decrease) in cash resources	477,648	(28,124)
Cash resources at beginning of year	163,953	192,077
CASH RESOURCES AT END OF YEAR	$ 641,601	$ 163,953

See accompanying notes to financial statements.

SUPPLEMENTAL INFORMATION:		
Taxes Paid	$ 656,667	$ 712,477



CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

OPERATIONS

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation established under the Financial Institutions Act (FIA) and is operated as a separate entity by the Financial Institutions Commission (FICOM). The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the FIA. To meet this mandate, CUDIC undertakes administrative and regulatory functions as set out in the FIA, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures to them.

The amount, timing and form of deposit insurance payments or financial assistance which may be required for credit unions is dependent on future events and outcomes. Three outcomes that may require assistance are rehabilitation, merger or liquidation of credit unions. In the event of a liquidation, CUDIC's liability for deposit insurance is restricted to limits prescribed under the FIA. Although CUDIC normally provides both specific and general provisions for deposit insurance payments and financial assistance, currently no specific provisions are considered to be required.

Under the FIA, Stabilization Central Credit Union of British Columbia (SCCU) has been designated a stabilization authority. SCCU is a central credit union owned and controlled by the British Columbia credit union system. CUDIC may delegate specific responsibilities with respect to supervision of credit unions to SCCU. SCCU also maintains a fund to enable it to assist credit unions. Under the terms of an agreement, SCCU is obligated to provide financial assistance to credit unions it supervises should the need arise. CUDIC also has the ability to draw upon the financial resources of SCCU should the CUDIC fund, as represented by accumulated earnings and the general provision, decline below 30 basis points of credit unions' deposits and non-equity shares. SCCU's stabilization fund equity at December 31, 2000 was $91,077,645 (1999 - $83,867,466). Based on the agreement between CUDIC and SCCU, a line of credit issued by the latter to CUDIC for the amount of 30.0 million, which together with CUDIC's resources gives CUDIC access to a total fund of 57.5 basis points of total deposits and non-equity shares in credit unions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments

The CUDIC investment portfolio is managed by two investment managers according to a prudent policy approved by the Board of Directors. Premiums and discounts arising at the time of purchase of investments are amortized over the period to maturity. Revenue from investments includes interest income as well as net realized capital gains or losses.

(b) Provision for Losses

CUDIC's policy for providing for losses reflects CUDIC's best estimate of losses in respect of deposit insurance and financial assistance to credit unions. CUDIC establishes two types of provisions for losses: specific and general. Specific provisions are established for losses on financial assistance provided to a credit union and an estimate of losses in respect of deposit insurance claims for a credit union in financial difficulty. The general provision reflects CUDIC's best estimate of potential losses on insured deposits where such losses cannot be reasonably estimated on an individual credit union basis. This provision is established by assessing the aggregate risk in the credit union system based on current market and economic conditions.

(c) Related Party Transactions

As indicated, CUDIC is operated as a separate entity by FICOM, a commission of the British Columbia government. Administrative expenses relating to CUDIC's mandate are charged to CUDIC. The allocation of direct salaries to CUDIC is calculated based on the activities performed by FICOM staff on tasks pertinent to the mandate of CUDIC. Other expenses, including occupancy costs, are allocated to CUDIC according to CUDIC's proportionate share of activities.

(d) Liquidity

CUDIC maintains a line of credit at the Provincial Treasury of British Columbia equivalent to the CUDIC portfolio managed by BC Investment Management Corporation (BCIMC) up to $50 million. At March 31, 2001, the value of the portfolio managed by BCIMC was $47.6 million. This line of credit may be drawn upon to meet short-term liquidity requirements. Any drawings against this line of credit would be secured by CUDIC's investments.

(e) Financial Instruments

The market values of the investments approximate their fair values. The fair values of all other financial instruments, which include cash, accounts payable and accruals, approximate their carrying values.

2. PROVISION FOR LOSSES

	Year Ended March 31, 2001	Year Ended March 31, 2000
Provision for losses, beginning of year	$ 6,000,000	$ 5,800,000
Adjustment to Provision	500,000	200,000
Provision for losses, end of year	$ 6,500,000	$ 6,000,000

There is no specific provision. The $6,500,000 reflects a general provision which is currently maintained at 3 basis points of the total of all British Columbia credit unions' deposits.

3. INVESTMENTS

The CUDIC investment portfolio is managed by two investment managers. The maturity or duration of investments at amortized book value is as follows:

Maturity of Specific Investments:

				Total	
	1 year or less	1-5 Years	Over 5 Years	2001	2000
Canadian	$ 2,306,546	$ 22,608,960	$ 19,080,529	$ 43,996,035	$ 38,589,043
Provincial	0	6,586,428	6,145,190	12,731,618	10,829,287
Municipal	0	400,000	2,080,669	2,480,669	2,496,097
Corporate	0	9,910,792	3,283,308	13,194,100	14,117,809
	$ 2,306,546	$ 39,506,180	$ 30,589,696	72,402,422	66,032,236

Duration of Pooled Funds:

	Duration		
Money Market Funds	Less than 1 year	138,413	1,059,272
Government Bond Fund	5.9 years	14,288,450	13,701,542
Corporate Bond Fund	5.8 years	6,215,511	5,575,824
		20,642,374	20,336,638
Total Investments		**$ 93,044,796**	**$ 86,368,874**
Market Value		$ 94,634,038	$ 85,984,305

4. INCOME TAXES

As a deposit insurance corporation, CUDIC's taxable income is defined generally to exclude assessments from and financial assistance (or recovery thereof) to credit unions.

	Year Ended March 31, 2001	Year Ended March 31, 2000
Estimated tax expense on pre-tax income at statutory tax rates of 17.4% (2000 - 18.6%)	$ 1,279,566	$ 1,451,851
Add (deduct) tax effect of:	(703,354)	(908,553)
Non-taxable assessment to credit unions		
Non-deductible provision for losses	86,775	37,200
Other	4,935	(6,315)
Income tax expense for the year	**$ 667,922**	**$ 574,183**

5. CONTINGENCY

Subsequent to the year end, CUDIC has been named in an action filed against a number of parties, including a credit union that CUDIC provides deposit insurance for. To date, CUDIC has not been served with any documentation regarding this action. Management disputes the validity of the action brought against CUDIC and considers the aggregate exposure to CUDIC, if any, of this action to be insignificant.

Schedule A

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

SCHEDULE OF ADMINISTRATION EXPENSES

	Year Ended March 31 2001	Year Ended March 31 2000
Salaries and benefits	$ 1,136,983	$ 1,152,909
Directors expenses	9,013	9,014
Travel	45,894	49,452
Professional services	172,662	14,771
Information services	42,405	62,229
Building occupancy	131,372	110,939
Furniture and equipment	51,984	37,143
Other	57,051	69,339
	$ 1,647,364	$ 1,505,796

See accompanying notes to financial statements.

XI. CONTACTS: Market Conduct Complaints and Inquiries

- **FINANCIAL INSTITUTIONS COMMISSION**
  19th Floor, 1050 West Pender Street
  Vancouver, British Columbia V6E 3S7 Web: http://www.fic.gov.bc.ca

Credit Unions/Deposit Insurance	**[604]**	**660-0109 or 660-0119**
Insurance Complaints/Inquiries	**[604]**	**660-2971 or 775-2491**
Investigations/Criminal Matters	**[604]**	**660-2836 or 660-2949**
Mortgage Brokers Complaints/Inquiries	**[604]**	**775-1839**
Real Estate Complaints/Inquiries	**[604]**	**660-4822**
Strata Property Inquiries	**[604]**	**660-1983**
Trust Companies	**[604]**	**660-0129**

Inquiries and complaints regarding a **licensed real estate agent, salesperson or property manager** should be addressed to:

Real Estate Council of British Columbia
Suite 900 - 750 West Pender Street
Vancouver, British Columbia V6C 2T8
Telephone: [604] 683-9664 Web: http://www.realestatecouncil.bc.ca

Inquiries and complaints regarding a **licensed insurance agent, adjuster or salesperson** should be addressed to:

Insurance Council of British Columbia
Suite 300 - 1040 West Georgia Street
Vancouver, British Columbia V6E 4H1
Telephone: [604] 688-0321

FICOM has no responsibility for the regulation of chartered banks.
Inquiries and complaints regarding **chartered banks** should be addressed to:

Office of the Superintendent of Financial Institutions (Canada)
Suite 305 - 1095 West Pender Street
Vancouver, British Columbia V6E 2M6
Telephone: [604] 666-5335 Web: http://www.osbi-bsif.gc.ca

FICOM has no responsibility for the regulation of the securities industry.
Inquiries and complaints regarding the **securities industry** should be addressed to:

British Columbia Securities Commission
Suite 1100 - 865 Hornby Street
Vancouver, British Columbia V6Z 2H4
Telephone: [604] 899-6500 Web: http://www.bcsc.bc.ca

XII. CONTACTS: Deposit Insurance and Compensation Plans

Deposit taking trust companies, credit unions and insurance companies authorized to conduct business in British Columbia must be members of a deposit insurance plan or an insurance compensation plan.

These plans reimburse consumers for a portion of their losses that may result from an insolvency of a credit union, trust company or insurance company. Each plan has different coverage limits and different rules which are described in brochures available from each on request.

- All **deposit taking trust companies** with a British Columbia business authorization must be members of:

  Canada Deposit Insurance Corporation
  17th Floor - 50 O'Connor Street
  P.O. Box 2340, Station "D"
  Ottawa, Ontario K1P 5W5
  Phone: 1-800- 461-2342
  Fax: [613] 996-6095 Web: http://www.cdic.ca

- All **deposit taking credit unions** with a British Columbia business authorization must be members of:

  Credit Union Deposit Insurance Corporation of British Columbia
  Suite 1900 - 1050 West Pender Street
  Vancouver, British Columbia V6E 3S7
  Phone: [604] 660-2947
  Fax: [604] 660-3170 Web: http://www.fic.gov.bc.ca/cu/cudic.htm

- All insurance companies with a British Columbia business authorization which permits the sale of **property and casualty insurance** to the public must be members of:

  Property & Casualty Insurance Compensation Corporation
  Suite 210 - 20 Richmond Street East
  Toronto, Ontario M5C 2R9
  Phone: [416] 364-8677
  Fax: [416] 364-5889 Web: http://paccic.com

- All insurance companies with a British Columbia business authorization which permits the sale of **life, accident and sickness insurance** to the public must be members of:

  Canadian Life and Health Insurance Compensation Corporation
  Suite 1600 - 1 Queen Street East
  Toronto, Ontario M5C 2X9
  Phone: [416] 359-2001 Web: http://www.compcorp.ca
  Fax: [416] 955-9688